

COSTA MESA
COUNTY WATER DISTRICT/
CITY OF COSTA MESA
CONSOLIDATION FEASIBILITY STUDY :
A REPORT
TO THE
COSTA MESA CITY COUNCIL

[Costa Mesa county water district]

[Costa Mesa City Council]

Public works Munic. Costa Mesa

Publ. utilities Water " "

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COSTA MESA COUNTY WATER DISTRICT/CITY OF COSTA MESA

CONSOLIDATION FEASIBILITY STUDY:

A REPORT TO THE COSTA MESA CITY COUNCIL

***PREPARED BY: ROBERT K. DUGGAN
ASSISTANT CITY MANAGER***

***WITH THE ASSISTANCE OF A TEAM EFFORT BY
CITY OF COSTA MESA DEPARTMENT HEADS AND STAFF***

APRIL 19, 1976

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Voters Need Facts

Should the city of Costa Mesa take over the operations and assets of the Costa Mesa County Water District?

A number of seemingly valid reasons could be offered to support such a move.

Boundaries of the district and the city are almost identical and they serve almost exactly the same citizens. A single operation would have only one governing board and some reductions in operating costs might be anticipated.

Further, water operations frequently must be coordinated with city agencies and working under one administration should improve communication, particularly regarding new construction and fire protection.

All this sounds promising to some city council members and to some citizens. Unfortunately, there's a historical element that has to be remembered.

Until the late 1950s, Costa Mesa was served by no fewer than five separate water districts. In order to get support for a consolidation election, the city government had to pledge a hands-off policy.

One reason was to mollify the jealousies of the five water district boards. Another was a strong suspicion that the city might turn a water department into a money-making operation to subsidize expenditures in other areas.

Alvin L. Pinkley has been an outstanding proponent of the independent district. When the city council brought up the takeover issue again last week, Pinkley was for the first time in 22 years not a member of that council. But he still is a water board

director and he vowed in the strongest language to fight the proposal.

His feeling is undoubtedly shared by fellow water board directors and by other oldtimers with deep roots in the city's water development.

On one hand, the current system is good. It provides excellent fire protection, fair rates, good service and has managed to keep up with a rapid growth rate.

Further, the water district had displayed remarkable economic stability. Its conservative and independent financial management has provided it with sufficient funding to accomplish many improvements. Under a city administration, there is a nagging question that capital funds for such development might have been sidetracked into other city ventures.

Yet, there is duplication of effort and management costs. Most cities in California operate their own water departments and citizens find it rational and businesslike to have all of the usual city services handled by one government.

Trying to put the issue on the June ballot—as was being suggested last week—was too hasty a move. Issues could not have been explored or explained to voters in that short a period.

(There was some basis for the rush. The water district announced it wants to move out of rented quarters in the city hall and build its own headquarters for occupancy in early 1977.)

Still, the matter must be pursued. Voters of Costa Mesa have every right to know the pros and cons of the current system versus a city-run system. A patient and unbiased exploration of those pros and cons should be organized and placed before the public.

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COSTA MESA ORANGE COUNTY WATER DISTRICT/
CITY OF COSTA MESA
CONSOLIDATION FEASIBILITY STUDY:
A REPORT TO THE COSTA MESA CITY COUNCIL

On March 15, the City Council directed Councilwoman Norma Hertzog and the City Manager's Office to prepare a report within 30-days to consider the feasibility of the Costa Mesa County Water District (hereafter called "District") consolidating with the City of Costa Mesa (hereafter called "City"). In this report, the basic advantages and problems to such a merger have been considered. It should be mentioned that the District staff has been cooperative in providing information and other materials which have been used in the preparation of this report.

SCOPE OF REPORT

The major thrust of this report focuses on the operational aspects of the District's consolidation with the City. The report will point out where dollar savings can possibly result and what other benefits are possible from a District/City consolidation. There was no attempt to analyze the District's present financial situation in terms of fund balances, financial audits, analysis of water rates, or overall financial condition. A report from the City Attorney is attached which discusses the procedural aspects of a merger of the District with the City.

WATER DISTRICT BACKGROUND

Prior to January 1, 1960 there were five water suppliers within the boundaries of the City of Costa Mesa. These suppliers were dependent on local well water, which was gradually deteriorating in quantity and quality. These agencies were merged into the Costa Mesa County Water District by a special act of the State Legislature. This was done to meet the increasing demand for water, better coordination for the construction of additional facilities, and to eliminate the problem of public confusion on where to obtain water service.

For the first seven years of its existence, the District maintained offices and maintenance yards in various locations until May 31, 1967 when it space on the first floor of the new City Hall. The Rental of these facilities was applied to the City purchase of surplus property which the City developed as Heller Park.

The District presently provides the water supply for nearly 100,000 people in a 17 square mile service area. This service area, although not coterminous with the City's boundaries, (see attached map) includes most of the City of Costa Mesa, parts of Newport Beach, and some unincorporated areas of the County including the Orange County Airport. The five members of the Board of Directors represent the five divisions of the district and they are elected by the voters in the division in which they reside for four year overlapping terms. The District has 47 employees who work in seven departments.

The District's proposed budget for 1975-76 totaled \$3,267,950. The majority of revenues come from water sales. Other sources of revenue included land sales, interest, rents and leases, state projects and miscellaneous income.

The District pays interest and principal annually on its bond issue of \$2,595,000 issued March 13, 1962. For the fifth consecutive year the District is operating without any property tax rate and on a pay-as-you-go financial program based on water revenues only.

The District purchases water from the Metropolitan Water District of Southern California to supplement its well supply and leases approximately 200 million gallons of storage capacity in the San Joaquin Reservoir. Last year the Insurance Services Office conducted a municipal fire protection survey in the City of Costa Mesa, awarding a rating of Fire Protection Class II and rating the water facilities as also very high, although they did point out a number of deficiencies to be corrected.

SUMMARY OF FINDINGS

1. It would appear that numerous benefits would result from a merger with the District and the City. The advantages would primarily be to the taxpayer, in that a savings of approximately \$364,926 a year could be accomplished which would either allow a reduction of the present water rates, or would provide for more capital improvements to the water system each year.
2. It also appears that such a consolidation would provide much better cooperation and coordination than now exists at this time between the District and the City. At the present time, there is very little opportunity for City input into the District's priorities, which is essential if effective fire protection to citizens in Costa Mesa is to be provided. There are also a number of District and City policies which work at cross purposes and such a merger would eliminate these problems.
3. This report should by no means be considered as the final word on this subject. There are areas not covered in this report which need to be studied further. Perhaps a Citizens Committee could be authorized to make a more detailed and comprehensive analysis, much in the same manner as a citizens committee several years ago studied the feasibility of Costa Mesa becoming a charter City.

ANALYSIS OF COST SAVINGS

The following sections analyze the various District expenditures for 1975-76 to determine where possible savings could result from a consolidation. It was found that some District functions duplicate City functions such as Finance and Personnel. These functions can be absorbed and consolidated into the City's operations at an overall savings to the taxpayer. In a consolidation, District personnel who do not duplicate present City operations would be transferred to the City and become City employees.

It is estimated that the total annual savings which can be realized by a consolidation is approximately \$364,926 a year. As salaries and benefits are increased in the District each year, savings will become even greater in subsequent years.

In analyzing the figures on the following pages, it should be noted that the District does not calculate the cost of employee fringe benefits the same way that the City does. Apparently, the District only calculates direct out-of-pocket costs. There is no way to really tell by reading the budget. The City, in addition to these out-of-pocket costs, also adds the indirect costs of benefits of sick leave, vacation, holidays, etc. The City's costs vary for different groups of employees, but an average percentage payroll cost is about 27 percent for office employees and 33 percent for field employees. We have used the 27 percent figure in these calculations. Because of this difference, the figures in this report do not exactly correspond to the District's budget figures.

Salaries for individual employees are not specified in the District's budget. As a result, when making salary estimates for individuals, the highest step in the District's salary range (Step E) was used because that represents the potential savings which can result. All employees who continue their employment with the District will eventually reach the E Step, which is also why it was used. Salary estimates were also made when positions were listed in the budget, but not listed in the District's 1975 Salary Resolution.

Estimated cost savings by District departments are summarized below and detailed savings for each District department follows:

ESTIMATED ANNUAL COST SAVINGS THROUGH A CONSOLIDATION

Board of Directors	-	\$ 49,200
District Consultants	-	60,000
General Administrative	-	40,320
Community Relations	-	35,005
Engineering Department	-	56,876
Personnel Department	-	48,374
Finance Department	-	<u>75,151</u>
Total Estimated Savings	-	\$ 364,926

WATER DISTRICT BOARD OF DIRECTORS

1975-76 ANNUAL COSTS

	<u>CURRENT</u>	<u>PROPOSED CONSOLIDATION</u>
5 Directors	12,000	0
Indirect Salary Costs (benefits)	11,000	0
Office Supplies	5,400	0
Election Expense	10,000	0
Conference Expense	10,800	2,000
Board Meeting Expenses	<u>2,000</u>	<u>0</u>
<u>TOTALS</u>	<u>51,200</u>	<u>2,000</u>

APPROXIMATE SAVINGS - \$49,200

(Current costs minus proposed consolidation costs)

COMMENTARY

With a consolidation, the District could become a division of the City's Public Services Department and the present Board of Directors function would become unnecessary. A State Controllers report for 1974-75 shows that there are presently 250 cities in California which provide full water services as a municipal function. These Cities are apparently being operated successfully without a duplicate Board of Directors. The water services function could be directly managed by a City Division Head who would be responsible to the Public Services Director. The Public Services Director reports to the City Manager who is directly responsible to the City Council. As a result, the City Council would ultimately take the place of this Board function, since it is the governing body and policy-maker for all City operations.

Since some members of the Council would attend water-related conferences, \$2,000 has been left in for this purpose.

WATER DISTRICT CONSULTANTS

1975-76 ANNUAL COSTS

	<u>CURRENT</u>	<u>PROPOSED CONSOLIDATION</u>
Engineering	85,000	85,000
Accounting	24,000	6,000
Legal	35,000	0
Management	<u>7,000</u>	<u>0</u>
<u>TOTALS</u>	<u>151,000</u>	<u>91,000</u>

APPROXIMATE SAVINGS - \$60,000

COMMENTARY

Proposed savings in this area would result from our City Attorney's office assuming the responsibility of providing legal advice to an additional City Division. The accounting services could be reduced to auditing services, resulting in an \$18,000 savings. The necessary accounting functions would be absorbed into the City's Finance Department. Also, fees for management consulting services for labor relations would not be required, since the City already uses this same consultant for these purposes. Although the \$85,000 for Engineering Consulting services has been left in for the first year of consolidation, it is felt that major savings can result in subsequent years by City employees performing these functions.

WATER DISTRICT
GENERAL ADMINISTRATIVE DEPARTMENT
1975-1976

	<u>CURRENT</u>	<u>PROPOSED CONSOLIDATION</u>
1 General Manager/Secretary	27,384	0
1 Manager of Operations	24,912	22,000
1 Administrative Secretary/Auditor	12,504	11,052
Indirect Salary Costs (benefits)	<u>17,496</u>	<u>8,924</u>
<u>TOTALS</u>	<u>82,296</u>	<u>41,976</u>

APPROXIMATE SAVINGS - \$40,320

COMMENTARY

Proposed savings in this area is largely possible by the reduction of duplicate administrative overhead. As a City Division Head, the proposed salary for a Manager of Operations would be decreased to a level appropriate with other City Division Heads. Clerical assistance at the Secretary I level would be required.

WATER DISTRICT COMMUNITY RELATIONS

1975-76 ANNUAL COSTS

	<u>CURRENT</u>	<u>PROPOSED CONSOLIDATION</u>
1 Community Relations Officer/Admn. Asst.	20,004	0
Indirect Salary Costs (benefits)	5,401	0
Membership Expense	800	0
Conferences	1,900	0
Office Expenses	1,900	0
Community Relations Expense	<u>5,000</u>	<u>0</u>
<u>TOTALS</u>	<u>35,005</u>	<u>0</u>

APPROXIMATE SAVINGS - \$35,005

COMMENTARY

This entire function would be provided by the City's current advertising and promotion program at no additional cost.

WATER DISTRICT PERSONNEL DEPARTMENT

1975-76 ANNUAL COSTS

	<u>CURRENT</u>	<u>PROPOSED CONSOLIDATION</u>
1 Director of Personnel	19,068	0
1 Personnel Records Clerk/Secretary	11,424	0
1 Part Time Personnel Clerk	0	5,000
Indirect Salary Costs (benefits)	8,232	0
Training and Education	4,650	0
Equipment	3,500	0
Tuition Reimbursement	2,500	0
Office Expense	3,000	0
Miscellaneous Personnel	<u>1,000</u>	<u>0</u>
<u>TOTALS</u>	<u>53,374</u>	<u>5,000</u>

APPROXIMATE SAVINGS - \$48,374

COMMENTARY

This entire function could be provided by the City's Personnel Department if the District were consolidated with the City. The increase of a part-time Personnel Clerk to handle the additional increased workload would be required.

WATER DISTRICT CUSTOMER SERVICE DEPARTMENT

1975-76 ANNUAL COSTS - \$129,900

APPROXIMATE SAVINGS - \$0.00

COMMENTARY

No proposed changes in this function at this time. No projected savings since these functions do not duplicate present City functions.

Services of this department includes:

- Reading of water meters
- Water meter replacement and repair
- Water meter testing

WATER DISTRICT ENGINEERING DEPARTMENT

1975-76 ANNUAL COSTS

	<u>CURRENT</u>	<u>PROPOSED CONSOLIDATION</u>
1 Civil Engineer	20,368	20,368
1 Associate Civil Engineer	17,712	0
1 Inspector Consultant (part time)	9,360	0
2 Construction Inspectors	35,424	17,712
1 Water Quality Inspector	16,068	16,068
Indirect Salary Costs (benefits)	<u>26,711</u>	<u>14,619</u>
<u>TOTALS</u>	<u>125,643</u>	<u>68,767</u>

APPROXIMATE SAVINGS - \$56,876

COMMENTARY

Major savings in this area result from being able to utilize existing personnel in the City's Public Services Department to provide engineering and inspection services.

WATER DISTRICT FINANCE DEPARTMENT

1975-76 ANNUAL COSTS

	<u>CURRENT</u>	<u>PROPOSED CONSOLIDATION</u>
1 Finance Officer	15,000	0
2 Accounting Clerk II	22,848	22,848
2 Accounting Clerk I	20,712	0
3 Clerk Typist/Service Clerk	27,504	18,335
1 Cashier	10,356	0
Indirect Salary Costs (benefits)	26,033	11,119
Mini Computer	<u>5,000</u>	<u>0</u>
<u>TOTALS</u>	<u>127,453</u>	<u>52,302</u>

APPROXIMATE SAVINGS - \$75,151

COMMENTARY

Proposed savings in the Finance Department is largely possible by utilizing the City's computer for water billing operations and the reduction of duplicate administrative overhead. The City's NCR Century 200 Computer has the capacity to handle this extra function and we do have available computer time in which to make the necessary computer runs. There are existing software systems presently available which can be utilized and would save the costs of any additional systems development and programming. The City of Newport beach used such a system on Costa Mesa's computer to run their water billings before they purchased their own computer. The Cashier function could be absorbed by present personnel in the City's Finance Department.

WATER DISTRICT FIELD OPERATIONS

1975-76 ANNUAL COSTS - \$626,800

APPROXIMATE SAVINGS - UNKNOWN AT THIS TIME

COMMENTARY

Time constraints did not permit a thorough investigation into field operations presently conducted by the District. However, it is felt that definite savings are possible in the areas of inspections, dispatching, asphalt and concrete work. It would appear, for example, that it would be more economical to have one asphalt crew perform all the patching work for both the City and District.

Savings could also occur in the shared use and maintenance of equipment. A more coordinated inspection procedure for projects would be implemented and some duplication of effort and paperwork would be eliminated, since a single inspector could handle one project, eliminating an additional inspector for street work and backfill inspection. The coordination and timing of projects would be improved with regard to water system projects and the scheduling of street maintenance work.

Further study should be made in this department to identify areas where further savings may be possible.

ADDITIONAL BENEFITS OF CONSOLIDATION

1. The District, by consolidating with the City, would not need to construct a new headquarters facility which it is now considering. By remaining in its present facility in City Hall, public convenience would be enhanced because a citizen would be able to stop in one place to transact most of his business. This will not be possible if the District moves out when their rental lease expires in May, 1977. This move-out to a location 4½ miles away would make it most inconvenient, and impossible for persons to obtain a number of necessary permits for one project in one location.
2. Through consolidation, the City would acquire a monthly mailing contact with the majority of property owners through the District's current billing system. If the City decided to publish a community newsletter as has been suggested, or in other ways would like to communicate with people in the community, this billing mechanism could be used without extra costs and would save significant postage fees. For example, if the City decides to publish a quarterly newsletter to citizens, it would be able to save approximately \$10,000 a year in postage, although we would not be able to reach those persons in Costa Mesa in the area served by the Santa Ana Heights Water District through this mechanism.
3. As part of the City structure, the District would realize the very significant benefit of the immediate availability of large amounts of working capital that could be borrowed for capital improvement projects. It is possible that the necessity for a future bond issue could be eliminated by this financing method. Other major benefits to the District's capital improvement program would be: much simpler procedures in borrowing working capital from the City; lower interest costs and no incidental costs; and the ability to undertake a large project at today's lower construction costs and not having to wait several years to accumulate sufficient working capital.

The relatively level cash flow from payment of water bills would have a beneficial effect on the City's treasury operation even though the City would strictly respect the separate identity of District assets and revenues.

4. In the event that future bond issues were needed for water system improvements, they would certainly have improved marketability if they were issued by the City. Cities generally get about 1/4% less interest cost on bond issues than special districts do.

5. Under a consolidation, the City would have an advantage of establishing an overall policy for developers and have more flexibility in determining developmental policies in the Community. At the present time, some developers feel that the District's policies are far too restrictive. It is perhaps more appropriate for the City Council to determine overall developmental policies for the City of Costa Mesa, rather than to have these decisions being made by another governmental agency. The District's water policies are directly affecting land use in Costa Mesa which should be the sole responsibility of City government.
6. Establishing community priorities for water system capital improvements would be much better coordinated under a consolidation. At the present time, the District independently sets its own priorities for capital improvements to provide primarily for water distribution. The City's Fire Department also has certain priorities which it feels are essential to provide adequate fire protection. During the past several years the City feels that communications between the District, Fire Department and the City in general have noticeably deteriorated. The City has attempted to provide its input so that the priorities of both agencies can be considered and coordinated for the benefit of the entire community. However, the District continues to establish its priorities with little consideration to those priorities identified by the Fire Department.

The Fire Department has indicated several areas of concern such as replacement of mains, additional mains needed to increase area flows, additional mains to supply new hydrants, new hydrants on existing mains, upgrading of "J" type hydrants on adequate sized mains, and the upgrading of "B" type hydrants. The City realizes that complete fire protection needs cannot be resolved immediately. However, a program must be developed whereby priorities can be established by a mutual understanding between the District and the City.

7. The consolidation of the District would simplify the governmental structure in the community by eliminating one more layer of government at significant cost savings.

PROBLEMS TO CONSOLIDATION

1. It is anticipated that the District will use every available means at their disposal to oppose a consolidation and an expensive court fight could possibly result. A quote was made by a District official in the newspapers that "blood would run in the streets" if the City attempts such a move. Taxpayers dollars running down the drain would be more accurate. Costa Mesa taxpayers could find themselves in an unusual situation of paying Court costs for both sides. However, the City Attorney in his analysis, has identified a standard procedure which would allow this matter to be settled by the voters in the District, rather than having to resort to court action.
2. Some problems could arise in adjusting pay scales for District employees who would become City employees. At the present time there are different pay scales, retirement plans and benefits. Adjustment situations could be created which would not be resolved to the satisfaction of every employee involved.
3. The District would remain in City Hall and the City would not be able to use this space for other departments which could use more room to expand.
4. Water revenues could possibly be used for other City general operations at the expense of the water system. The City Council will need to make its position clear with respect to policies regarding water service revenues. It should be mentioned that when the City used to own water facilities, it did not divert any water revenues to finance other general governmental operations.
5. There could be legal problems caused by the fact that the District's boundaries include territory that is within the corporate limits of the City, territory that is unincorporated County areas lying within the sphere of influence of other cities and territory within the corporate limits of the City of Newport Beach. The implications of some of these problems are not fully known at this time.

COMMENTARY

It is felt that the above mentioned problems can be satisfactorily resolved if the Council determines that there are enough advantages to seriously consider a consolidation.

ATTACHMENTS



CITY OF COSTA MESA

CALIFORNIA 92626

P. O. BOX 1200

FROM THE OFFICE OF THE CITY ATTORNEY

April 7, 1976

City Attorney's Office

No. 76-18

LEGAL OPINION

Re: METHODS AND PROCEDURES AFFECTING A MERGER OF THE
COSTA MESA COUNTY WATER DISTRICT AND THE CITY OF
COSTA MESA

To: City Council Members

From: Roy E. June, City Attorney

QUESTION

You have requested my opinion with respect to methods and procedures to be followed in affecting a merger of the Costa Mesa County Water District with the City of Costa Mesa.

OPINION

Preliminary proceedings may be initiated by either the District or the City and may be by resolution or petition (§56130 Government Code). Sections of the Code are made applicable for petitions by landowner-voters within the District and provisions are made for form and content (§56140 - §56146 Government Code) to be filed and certified as to signatures (§56150 - §56162 Gov. Code) with signature requirements established (§56180 - §56185 Gov. Code), specific reference being made to mergers (§56185 Gov. Code). Other sections relate to initiation by resolutions of either the City or the District or both (§56195 - §56198 Gov. Code).

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No. 76-18

Action is begun by resolution of the City or the District or by petition of the landowner-voters within the District, applying to the Local Agency Formation Commission for approval of change of organization, which includes a merger (§56028 Gov. Code) and the required contents of the resolution are set forth in the Act (§56195 and §56140 Gov. Code).

The resolution is passed by the Council or District Board and is then filed with the Local Agency Formation Commission's executive office (§56196 Gov. Code). A petition by the landowner-voters within the District shall be filed with the executive officer of the District (§56151 Gov. Code).

A hearing is conducted before the Local Agency Formation Commission on the petition (§56262 Gov. Code) after notice by posting a publication (§56264 Gov. Code) and by mail (§56266 Gov. Code). The hearing may be continued from time to time (§56266 Gov. Code) and evidence at the hearing may be written or oral in protest or in objection (§56267 Gov. Code).

At any time not later than thirty-five (35) days after the hearing, the Local Agency Formation Commission shall adopt a resolution approving or disapproving the proposed merger and imposing reasonable conditions (§56270 Gov. Code). This resolution is filed and a certified copy mailed to applicants and affected cities and districts (§56272 Gov. Code).

If the merger is approved, then a copy of the Local Agency Formation Commission's resolution doing so is presented to the County Board of Supervisors who must, not later than thirty-five (35) days after receipt, adopt a resolution initiating proceedings in accordance with the Commission's resolution (§56292 and §56410 Gov. Code). This resolution, among other things, sets a time and place for hearing before the County Board of Supervisors on the merger which shall be not less than fifteen (15) nor more than sixty (60) days after the adoption of the resolution initiating proceedings. Provisions are made for notice of this hearing by publication and posting (§56411 Gov. Code) and by mail (§56412 Gov. Code).

The hearing may be continued from time to time (§56413 Gov. Code) and oral and written protests may be received and filed or withdrawn if already filed (§56414 Gov. Code). Factors to be considered in determining whether a resolution should be approved or disapproved are set forth (§56415 Gov. Code).

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Page Three continued

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The Board's final action is for disapproval or approval. In the case of approval, the order of a merger may be subject to the approval of the voters (§56416 Gov. Code). The final action of the Board may order a merger of the District into the City where the District is one hundred percent (100%) within the City. It may order a merger of that portion of the District within the City to the City and the creation of a subsidiary District for that portion of the District outside the City where at least seventy percent (70%) of the District is within the City. The seventy percent (70%) is calculated on the area of taxable or assessable real property within the District (§56403 Gov. Code). The merger may be approved without election if both the City and the District, by resolution, request that the merger be approved without election and providing that said resolution is filed with the Local Agency Formation Commission at the time of the hearing (§56416 Gov. Code).

To be subject to the approval of the voters, a proper petition must be filed with the County Clerk at some time prior to the Board's adoption of the resolution ordering the merger or creating a subsidiary or both (§56418 Gov. Code). If a petition in proper form is filed, the Board will order the election (§56418 Gov. Code), pass a resolution declaring the merger defeated, if that be the case (§56419 Gov. Code), pass a resolution confirming the merger (§56420 Gov. Code), or pass a resolution declaring the creation of a subsidiary District, all as a result of the election. The petition must contain not less than ten percent (10%) of the landowner-voters within the District (§56418 Gov. Code).

After the merger has been approved, it is filed (§56450 Gov. Code) and certain certificates of completion are prepared (§56451 Gov. Code), filed (§56452 Gov. Code) and recorded (§56453 Gov. Code). Effective dates of completion are provided for and are dependent upon recordation (§56455 Gov. Code), completion of conditions (§56456 Gov. Code), tax assessment levies (§56457 Gov. Code) and filing with the Secretary of State (§56454 Gov. Code).

After the hearings have been completed and the resolutions have been drawn, executed and filed, the task of administering the conditions imposed upon the merger must be met. The Board of Supervisors has wide discretion with respect to the imposition of conditions on the merger (§56470 through and including §56475 Gov. Code). Specific conditions and restrictions are set forth in the

Legal Opinion
Page Four continued

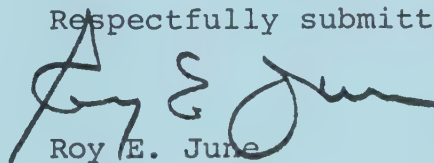
April 7, 1976
No. 76-18

case of mergers. They relate to the termination of the District (§56530 Gov. Code), vesting the money and property (§56531 Gov. Code), use of funds to pay obligations (§56533 Gov. Code), restrictions on sales of revenue producing enterprises (§56535 Gov. Code), rights and liabilities under outstanding bonds, contracts and obligations (§56536 Gov. Code), use of trust funds (§56537 Gov. Code), use of unencumbered funds and property (§56538 Gov. Code), the appointment of the City Council as the Board of Directors of the subsidiary District if one has been created (§56539 Gov. Code) and provision for the appointment of others as members of the board of the subsidiary District when incompatibility or conflict of interest exists (§56540 Gov. Code).

Probably the most troublesome aspect of the merger will be compliance with §56405 of the Government Code, which provides first, that in the case of a merger alone, the District must be one hundred percent (100%) within the City and second, that if at least seventy percent (70%) of the District is within the City, that portion may be merged and the remaining thirty percent (30%) will become one or more subsidiary Districts. These percentages are measured by area of taxable real estate as shown on the last equalized assessment roll.

A portion of the Costa Mesa County Water District is in Newport Beach, a portion in the County, and a portion in Costa Mesa. If the allowable percentages are exceeded, it will probably be necessary to investigate the possibilities of a partial de-annexation or consolidation of a portion with other county water districts or detachment of a portion of the District or some other form of reorganization to affect the merger.

Respectfully submitted,



Roy E. June
City Attorney

REJ:kmb

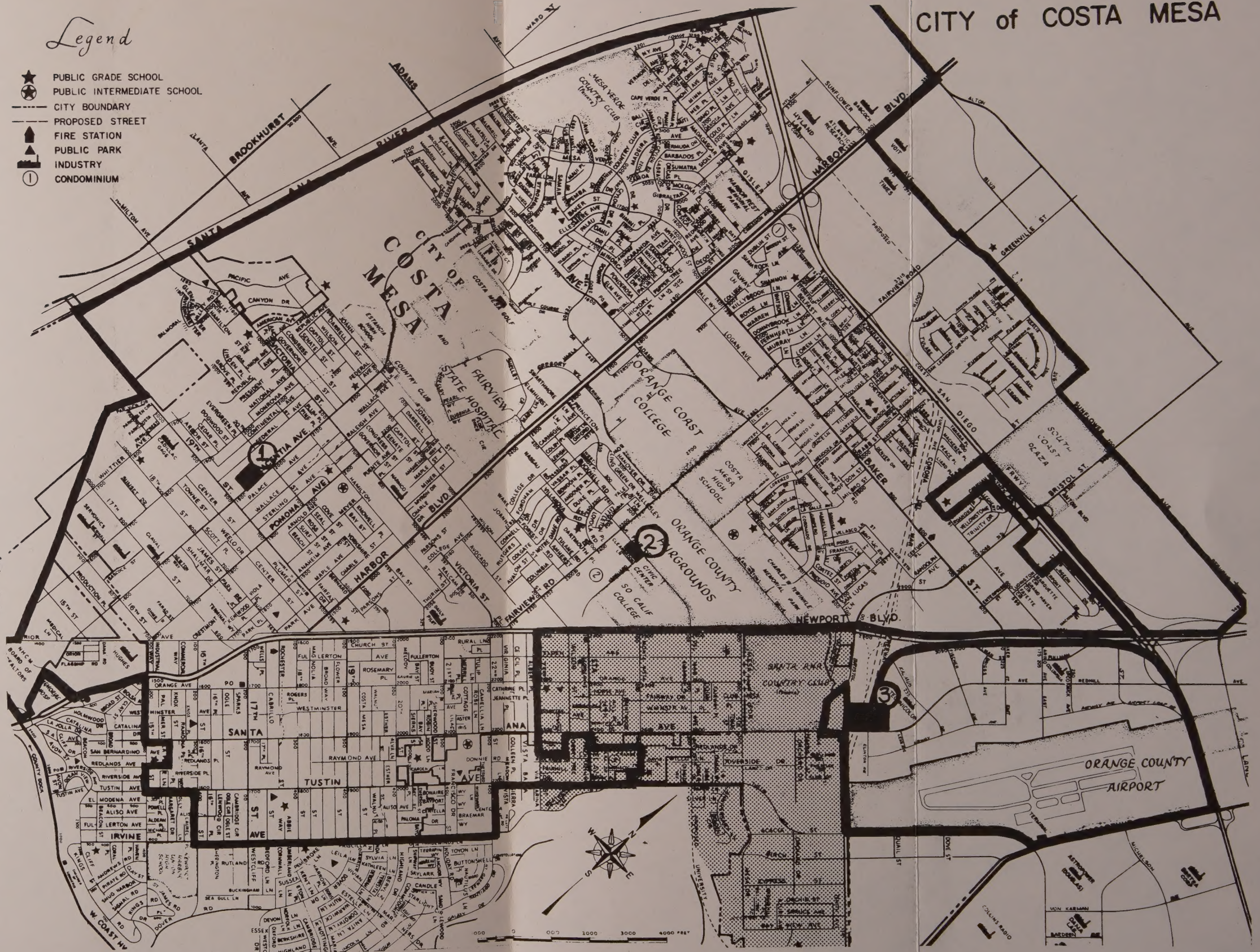
Legend

- ★ PUBLIC GRADE SCHOOL
- ⊙ PUBLIC INTERMEDIATE SCHOOL
- CITY BOUNDARY
- - - PROPOSED STREET
- 🚒 FIRE STATION
- 🌳 PUBLIC PARK
- 🏭 INDUSTRY
- ① CONDOMINIUM

Legend

- ▨ S.A. Heights Water Dist
- C.M. County Water Dist
- C.M.C.W.D. owned

- ① 3.6 acres
- ② 2.4 acres
- ③ 8.36 and 4.01 acres





CITY OF COSTA MESA

CALIFORNIA 92626

P. O. BOX 1200

FROM THE OFFICE OF THE CITY MANAGER

March 26, 1976

Mr. Ray Hudson
General Manager
Orange County Water District
77 Fair Drive
Costa Mesa, California 92626

Dear Ray:

As you know, I have been directed to submit a report to the City Council regarding the feasibility of the City consolidating the Orange County Water District. Generally, this report will address the possible advantages and disadvantages of such a proposal.

I would appreciate any input and comments which anyone from the District would like to contribute, so that this information may be included in the report. I feel it is important that the Council consider as many viewpoints as possible prior to taking any action on a matter of this importance.

If you have any questions regarding this matter, don't hesitate to write or call me anytime.

Sincerely,

Robert K. Duggan

ROBERT K. DUGGAN
ASSISTANT CITY MANAGER

RKD:jd

